



INVITATION FOR OFFER – WYOMING RIK OIL SALE (Phase 12)
IFO No. 1435-02-05-RP-25858
April 2005 through September 2005

Introduction

The Minerals Management Service (MMS) and the State of Wyoming, Office of State Lands and Investments (State), are jointly soliciting written offers from pre-qualified companies to purchase royalty oil produced from certain Federal and State leases in Wyoming.

This Invitation for Offer (IFO) is for a six-month term from April 1, 2005 through September 30, 2005. Offers must be made in writing and submitted to Sheila Perry via facsimile (303-231-3846) or email to sheila.perry@mms.gov by **2:00 pm MST on February 8, 2005**. MMS confirms receipt of all offers by phone. Royalty oil packages will be awarded by 2:00 pm MST on **February 11, 2005**.

Address Federal technical questions to Sheila Perry at 303-231-3610 and State technical and contracting questions to Harold Kemp at 307-777-6643 or email at hkemp@state.wy.us. Address Federal contracting questions to Maggie Miller at 303-231-3932 and pre-qualification and credit questions to Larry Cobb at 303-231-3307.

Offers

Offerors must be pre-qualified to submit offers. Please see the "Pre-qualification and Credit Requirements" section for more information. MMS reserves the right to reject any offer received.

Exhibit A is the official offer sheet identifying the packages of royalty oil offered and includes properties, operators, pipelines, estimated daily royalty volume, and average gravity details. Royalty volumes and gravity represent estimates provided by operators and are not warranted. Offerors are expected to contact appropriate parties for the most recent information.

Offers will be accepted on either an individual property basis or an entire pipeline basis as outlined in the Exhibit A offer sheets.

Offerors must make individual offers (to the nearest \$0.0001) on Exhibit A for each property and/or pipeline package. Offerors must submit offers on the full Federal and State royalty volume to be delivered. Tiered offers based on volume levels are unacceptable. Royalty oil from the properties listed in Exhibit A originating from new wells added during the term of this sale will be automatically added to the volumes purchased under this IFO.

Pricing Mechanisms

An offeror may not use its own company (or affiliate) posting in the calculation of its offer or payment. If an offeror's posting is used in any of the following pricing formulas, the formulas must be calculated without that posting. **Offers should be based on the gravity referenced in the applicable pricing formula.** Offers must be an increment or decrement from any or all of the following pricing formulas.

• **Big Horn Basin – Asphaltic Sour Crude:**

- 1) The calendar month's average of the Imperial (Esso) and Flint Hills oil postings for Canadian Bow River grade oil at a referenced gravity of 22° API
- 2) Calendar month NYMEX at 40° API

For payment, successful offerors will make appropriate gravity adjustments to match the actual gravity of the royalty oil being purchased each month by using the ConocoPhillips Wyoming gravity adjustment scale F. For example, this scale will be used to adjust payments from 40° API to the actual property gravity when NYMEX pricing is used and from 22° API when using Canadian Bow River postings.

• **Powder River Basin – Sweet Crude:**

Calendar month NYMEX at 40° API

For payment, successful offerors will not be allowed any additional adjustments for gravity. Offerors should deem sweet production at 40° API gravity for bidding and payment purposes.

• **Green River Basin – Southwest Wyoming Sweet Crude:**

Calendar month NYMEX at 40° API

For payment, successful offerors will make appropriate gravity adjustments to match the actual gravity of the royalty oil being purchased for the properties on Exhibit A by using Shell Trading (US) Company's Southwest Wyoming Sweet gravity adjustment scale.

Calendar month NYMEX: Arithmetic average of the daily settlement price of the "Light Sweet Crude Oil" front month futures contract reported by the New York Mercantile Exchange (NYMEX) during the Physical Month of Delivery (excluding weekends and holidays).

Term

Contracts for purchasing royalty oil will be awarded for a six-month term beginning April 1, 2005 and ending September 30, 2005.

Transportation and Scheduling of Royalty Oil

Title to royalty oil will pass to the successful offeror at the flange connecting the tank batteries to the pipeline or truck receiving station at the point(s) of delivery. Successful offerors will take custody of 100 percent of the royalty oil made available for sale at the receipt point(s) and are responsible for all movement of royalty oil downstream of these points.

Imbalances

Successful offerors are granted the right to purchase royalty oil delivered by operators at the receipt point, not the actual entitlement due the MMS or State. The MMS, the State, and operators will resolve imbalances between these two volumes.

Routine imbalances will be resolved by adjustments in the volume of royalty oil delivered to successful offerors in subsequent months. These adjustments will be reflected in communications from MMS to the successful offeror regarding the first-of-month availability of royalty oil. Imbalances not remedied within 90 days of the production month will be resolved by mutual agreement between

MMS, the State, and the operators. MMS and the State will consult with successful offerors in this process. The contract price under this IFO may form the basis of resolution of certain extraordinary imbalances. The rights and responsibilities of operators under this RIK oil sale are outlined in MMS' sample "Dear Operator" letter included as Exhibit B.

Consideration of Offers

MMS and the State may award a contract on the basis of initial offer(s) received without discussions. Accordingly, each initial offer should be submitted on the most favorable terms that the offeror can submit. However, MMS and the State may negotiate with offerors in the event offers of similar or unanticipated values are received. All information about the origin and value of offers received will remain confidential, except as noted above in Imbalances with respect to resolution of extraordinary imbalances.

MMS and the State will award a contract resulting from this IFO to the offeror whose offer, in their judgment, is most advantageous to the Federal and Wyoming State Governments. MMS and the State will award to successful offerors by means of the "MMS Crude Oil Transaction Confirmation" endorsed by the State for use in this RIK sale.

Pre-qualification and Credit Requirements

Offerors are required to pre-qualify by signing the MMS base contract "RIK Crude Oil General Terms and Conditions" and providing detailed financial information. Pre-qualification information can be found on our web site at <http://www.mrm.mms.gov/RIKweb/Oilprequal.htm>. By submitting an offer, the offeror agrees to be bound by the terms of its signed MMS base contract and this IFO.

Upon pre-qualifying, MMS will issue an amount of unsecured credit based on the creditworthiness of the offeror. In most cases where offerors have submitted their most current financial documentation or such information is available on Edgar Online, no additional information will be required. However, MMS reserves the right to request updated financial information in any situation it deems reasonable and may reissue approved lines of credit. Please be advised that MMS will require a parent guaranty in situations where the company submitting the offer is a different entity than the company that has pre-qualified.

For awards exceeding the amount of unsecured credit issued by MMS and accepted by MMS and the State, successful offerors will be required to provide secured financial assurance in the form of an Irrevocable Letter of Credit (ILOC), Bond, or other MMS-acceptable surety instrument 5 business days prior to first receipt of oil under the contract. If required, a separate ILOC, Bond, or other acceptable surety instrument must be provided for MMS and State property interests. All ILOC and Bond requirements affecting State interests shall show the State of Wyoming as beneficiary under such issuance. Successful offerors will be notified if additional security is required, and such notice will be included in the sales transaction confirmation.

The ILOC, Bond, or other MMS-acceptable surety instrument must be effective for the period beginning on the date of first receipt under the contract and ending with the verification and payment of the final deliveries. A sample of the ILOC, MMS Form-4071, may be found on the MMS web site at <http://www.mrm.mms.gov/ReportingServices/PDFDocs/4071.pdf>. For Bonds, use MMS Form-4072, <http://www.mrm.mms.gov/ReportingServices/PDFDocs/4072.pdf>. The financial institution issuing the ILOC or Surety Company issuing the Bond must meet MMS requirements under 30 CFR Part 208.11.

The financial assurance amount shall be sufficient to cover the value of 60 days of deliveries of the estimated production of all royalty oil awarded, less the amount of unsecured credit issued by the MMS as previously notified.

The value of the financial assurance will be calculated using the selected pricing mechanism, adjusted for gravity, plus the submitted offer applied to the February 2005 delivery month prices. For example, for NYMEX pricing, use the front-month calendar month average of the NYMEX daily settlement prices reported during February 2005 adjusted for gravity, plus the offered increment or decrement. For postings, use the calendar month average posted price for February 2005 adjusted for gravity, plus the offered increment or decrement. This offered value will then be multiplied by the daily production (estimated in Exhibit A), multiplied by 60 days, less the amount of unsecured credit issued by MMS and the State as endorser of this bonding methodology. The amount of unsecured credit applicable to this sale is contingent upon the successful offerors' current participation in other ongoing RIK sales programs.

For awards involving both MMS and the State, the financial assurance value must be prorated to determine the amount of the surety applicable to MMS and the amount applicable to the State. MMS or the State will contact you regarding the computation and proration of the financial assurance amount.

Significant and sustained increases in the value of crude oil during the term of the contract may result in a requirement to increase the amount of financial assurance. Further, should the creditworthiness, financial responsibility, or ability to perform become unsatisfactory to MMS or the State at any time during the term of this agreement, satisfactory assurances may be required as a condition to further performance under the agreement. Such assurances include, but are not limited to, a prepayment or a surety instrument in a form and amount satisfactory to MMS and the State. Failure to provide adequate performance assurances when requested may result in early termination of the contract.

Governing Contract

This transaction is governed by the MMS base contract "RIK Crude Oil General Terms and Conditions" signed by the offeror and MMS. Conflicts between the terms of this IFO and the MMS base contract will be resolved in favor of this IFO.

Please note: For production purchased from State leases, interest on late payments is governed by Wyoming statute under Title 30-5-303(a). This supercedes provisions in the RIK Crude Oil General Terms and Conditions, section 8(f).

2 Exhibits:

Exhibit A – Offer Sheet

Exhibit B – Sample Dear Operator Letter

The Paperwork Reduction Act: The Paperwork Reduction Act of 1995 requires us to inform you that this information is being collected by MMS to document fulfillment of royalty obligations on minerals removed from Federal lands and that we will use this information to maintain and audit lease accounts. This ICR is approved by Office of Management and Budget (OMB) and is titled "Royalty-in-Kind (RIK) Pilot Program - Directed Communications by Operators of Federal Oil and Gas Leases (OMB Control Number 1010-0129, expiration date July 31, 2006)." We estimate the burden for reporting is 1 hour per response.

Comments on the accuracy of this estimate or suggestions for reducing this burden should be directed to the Information Collection Clearance Officer, Minerals Management Service, 1849 C Street, NW, MS 4230, Washington, DC 20240. Proprietary information submitted to the U.S. Department of the Interior is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(1,) (4)), and the Departmental Regulations (43 CFR 2). An agency may not conduct or sponsor and a person is not required to respond to a collection of information unless it displays a currently valid OMB control number.

MMS/Wyoming RIK Oil Sale
 IFO No. 1435-02-05-RP-25858
 Term: April 2005 through September 2005

Offer Sheet
 Asphaltic Sour Crude

Exhibit A

Line Code	Lease or Agreement Number	Lease or Agreement Name	Operator	Avg. Gravity	Federal Avg. Daily Royalty Bbls	State Avg. Daily Royalty Bbls	Canadian Bow River @ 22° API	NYMEX @ 40° API
• Big Horn Basin -- Asphaltic Sour Crude								
Pipeline:	Rocky Mountain Pipeline)							
B0100	892000435A	Black Mountain	Phoenix Production	22.3	38	27	\$	\$
B0101	0620393210	Black Mountain #55	Phoenix Production	22.3	1		\$	\$
B0800	W 138881X	Hamilton Dome	Merit Energy	19.2	425		\$	\$
B0802	0490376990	Westates	Merit Energy	19.4	9		\$	\$
B7230	0620400270	Shad - Murphy Dome	Nance Petroleum Corp.	31.0	27		\$	\$
B7238	0640686650	Little Sand Draw-Nelson gs	Citation Oil and Gas	34.8	31		\$	\$
B7239	0640689070	Little Sand Draw-Davis	Citation Oil and Gas	34.8	3		\$	\$
			Total for Pipeline:		534	27	\$	\$
Pipeline:	Clear Fork							
B7276	8920004390	Elk Basin (Madison)	Anadarko	28.8	70	4	\$	\$
B7277	892000439A	Elk Basin (Emb.-Ten.)	Anadarko	28.4	150	20	\$	\$
			Total for Pipeline:		220	24	\$	\$
Pipeline:	Cottonwood Creek Inc.						\$	\$
B4000	891000463A	Cottonwood Creek (Phos)	Continental Resources	27.2	26	8	\$	\$
			Total for Pipeline:		26	8	\$	\$
Pipeline:	Four Bear							
B0400	8920001610	Fourbear	Goldmark Engineering	14.1	4	43	\$	\$
B1700	8920001130	Pitchfork	Marathon	17.6	190		\$	\$
B2100	892000279A	South Spring Creek	Marathon	15.4	110		\$	\$
			Total for Pipeline:		304	43	\$	\$
Pipeline:	Red Butte							
B3101	891012527A	Byron	Marathon	21.5	45		\$	\$
B3103	891002438A	Byron Pre-Tensleep, Amsden Pa	Marathon	21.5	1		\$	\$
B3102	891002438B	Byron Pre-Tensleep, Madison Pa	Marathon	21.5	1		\$	\$
B0300	W 112017X	Enigma (See Note Below)	Citation O&G	23.3	15		\$	\$
B0500	892000174A	Garland	Marathon	21.4	159		\$	\$
B1002	892000185C	Garland (Tensleep)	Marathon	21.4	20		\$	\$
B0600	8920003630	Gebo	Phoenix Production	24.5	112		\$	\$

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Offer Sheet
Asphaltic Sour Crude

Exhibit A

Line Code	Lease or Agreement Number	Lease or Agreement Name	Operator	Avg. Gravity	Federal Avg. Daily Royalty Bbls	State Avg. Daily Royalty Bbls	Canadian Bow River @ 22° API	NYMEX @ 40° API
B5000	892000223A	Gooseberry "A"	Kerr-McGee	21.6	18	8	\$	\$
B5100	892000223B	Gooseberry "B"	Kerr-McGee	19.5	13	10	\$	\$
B0710	W 150174X	Grass Creek	Marathon	23.5	19	149	\$	\$
B1004	0640446940	Kinney Coastal 012	Marathon	21.4	1		\$	\$
B1005	0640447690	Kinney Coastal 051,052	Marathon	21.4	1		\$	\$
B1000	892000185A	Kinney Coastal Garland - Mad "B"	Marathon	21.4	3		\$	\$
B1001	892000185B	Kinney Coastal Garland - Embar	Marathon	21.4	3		\$	\$
B1003	892000185E	Kinney Coastal Garland - Mad "A"	Marathon	21.4	2		\$	\$
B7100	064043977A	Kinney Coastal Garland 78Ea	Marathon	21.4	1		\$	\$
B6000	892000559A	Oregon Basin-N. Chugwater Pa	Marathon	21.7	1		\$	\$
B6100	892000559B	Oregon Basin-S. Chugwater Pa	Marathon	20.0	1		\$	\$
B6200	892000559C	Oregon Basin (N. Embar)	Marathon	21.7	222	17	\$	\$
B6300	892000559D	Oregon Basin (S. Embar)	Marathon	20.0	226	4	\$	\$
B6400	892000559E	Oregon Basin (N. Madison)	Marathon	21.7	22		\$	\$
B6500	892000559F	Oregon Basin (S. Madison)	Marathon	20.0	75		\$	\$
			Total for Pipeline:		960	188	\$	\$
			Total for Asphaltic Sour Crude:		2,045	290	\$	\$

Notes:

- Actual gravity adjustments on asphaltic sour.
- Legal locations can be obtained by calling technical representatives shown in the IFO.
- B0300 - Enigma, an additional operator transport charge is required to move the oil to Red Butte pipeline. Please call Peggy Stockton at 281-517-7321.
- For pipeline tariffs:
 - Rocky Mountain Pipeline - Gary Zollinger at 303-298-1000
 - Clear Fork - Carmel Helsley at 303-832-7187
 - Cottonwood Creek Inc. - Lindy Combrick at 580-233-8955
 - Red Butte - Andy Franklin at 307-587-4961
 - Four Bear - Doug Richardson at 307-237-8174

MMS/Wyoming RIK Oil Sale
 IFO No. 1435-02-05-RP-25858
 Term: April 2005 through September 2005

Offer Sheet
 Sweet Crude

Exhibit A

Line Code	Lease or Agreement Number	Lease or Agreement Name	Operator	Avg. Gravity	Federal Avg. Daily Royalty Bbls	State Avg. Daily Royalty Bbls	NYMEX @ 40° API
• Powder River Basin -- Sweet Crude							
<u>Pipeline:</u>	<u>Belle Fourche</u>						
PSW1601	84687U9690	House Creek (Sussex)	Devon Energy	35.1	47	17	\$
PSW4200	048042194A	Coyote Creek, Buttram Govt 2	True Oil	40.7	4		\$
PSW4300	048011357C	Coyote Creek, Pacific Oil 2	True Oil	41.0	4		\$
PSW4400	State/Fee Unit 2	Gleason State	True Oil	37.7		1	\$
PSW4517	W 142503A	African Swallow	Lario Oil & Gas	54.7	9		\$
PSW4600	891015482E	Pine Tree	Devon Energy	40.5	22	0.2	\$
PSW4700	W 123877X	Sand Dunes (Muddy)	Merit Energy	46.8	34	5	\$
			Total for Pipeline:		121	23	\$
<u>Trucked:</u>	<u>88 Trucking CO</u>						
PSW1900	W 106652X	N. Buck Draw	Merit Energy	57.8	25	4	\$
PSW4479	8910210470	Powell Press. Maint. Unit	Merit Energy	62.7	11		\$
			Total for Pipeline:		36	4	\$
<u>Pipeline:</u>	<u>Bridger Pipeline LLC</u>						
PSW4505	W 114211X	House Creek North	Medicine Bow	34.5	15		\$
			Total for Pipeline:		15		\$
<u>Pipeline:</u>	<u>Belle Fourche, Rocky Mountain Pipeline and Black Hills Trucking Co.</u>						
PSW1300	8910194240	Hartzog Draw	XTO Energy	36.0	329	14	\$
			Total for Pipeline:		329	14	\$
<u>Pipeline:</u>	<u>Rocky Mountain Pipeline</u>						
PSW4000	801000312B	Salt Creek (Lou)	Howell Petroleum	37.0	102	35	\$
			Total for Pipeline:		102	35	\$
			Total for Sweet Crude:		603	76	\$

Notes:

- Sweet crude/condensate deemed 40° API gravity.
- Legal locations can be obtained by calling technical representatives shown in the IFO.
- For pipeline tariffs or trucking rates:
 - Belle Fourche and Bridger - Garry Johnson at 307-266-0285
 - Rocky Mountain Pipeline - Gary Zollinger at 303-298-1000
 - 88 and Black Hills Trucking Co. - Sharon Redding at 307-266-0303

MMS/Wyoming RIK Oil Sale
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Offer Sheet
 Southwest Wy Sweet Crude

Exhibit A

Term: April 2005 through September 2005

Line Code	Lease or Agreement Number	Lease or Agreement Name	Operator	Avg. Gravity	Federal Avg. Daily Royalty Bbls	State Avg. Daily Royalty Bbls	NYMEX @ 40° API
• Southwest WY Sweet Crude							
Pipeline:	Rocky Mountain Pipeline LLC						
GR001	891016173B	Painter Reservoir	Chevron USA	52.7	8	5	\$
GR013	8910161730	Painter Reservoir	Chevron USA	52.9	200		\$
GR006	0491331050	Pinocchio	EOG Resources	45.3	21		\$
GR014	0490345470	Whitney Canyon/Carter Crk	Chevron USA	53.2	19		\$
GR019	0490345400	Whitney Canyon/Carter Crk	Chevron USA	53.2	9		\$
GR008a	891004736E	Green River Bend	Chevron USA	46.1	3		\$
GR008b	891004736E	Green River Bend	EOG Resources	46.1	8		\$
GR015	0490106820	Big Piney	EOG Resources	43.7	4		\$
GR024	0490106760	Big Piney	EOG Resources	44.6	16		\$
GR016	8920003200	North Labarge Shallow	EOG Resources	45.5	10	10	\$
GR017	W 146018X	Burly (Mesaverde)	EOG Resources	45.2	23		\$
GR018b	0491277490	Stud Horse Butte	BP America	49.0	2		\$
GR030a	891003856C	Dry Piney	Wexpro	53.3	10		\$
GR030b	891003856C	Dry Piney	ExxonMobil Corp	53.3	1		\$
GR030c	891003856C	Dry Piney	EOG Resources	53.3	4		\$
			Total for Pipeline:		338	15	\$
Pipeline:	Flying J						
GR011	84385U8590	Luckey Ditch	Merit Energy	42.6	43	7	\$
			Total for Pipeline:		43	7	\$
Pipeline:	Sinclair						
GR002	8920002540	Wertz Dome	Merit Energy	35.7	117		\$
GR003	891008206A	Lost Soldier (Tensleep)	Merit Energy	35.7	142		\$
GR004	891008206B	Lost Soldier (Darwin Mad.)	Merit Energy	35.8	93		\$
GR009	0491418830	Yellow Point	Encana	52.4	64		\$
GR010	891008206C	Lost Soldier (Cambrian)	Merit Energy	35.7	48		\$
			Total for Pipeline:		464		\$

MMS/Wyoming RIK Oil Sale
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Offer Sheet
Southwest Wy Sweet Crude

Exhibit A

Term: April 2005 through September 2005

Line Code	Lease or Agreement Number	Lease or Agreement Name	Operator	Avg. Gravity	Federal Avg. Daily Royalty Bbls	State Avg. Daily Royalty Bbls	NYMEX @ 40° API
Pipeline:	Wamsutter						
GR023a	891012484B	Brady Deep (Weber 'A')	Anadarko	53.0	1		\$
GR023b	891012484B	Brady Deep (Weber 'A')	Questar	53.0	1		\$
GR023c	891012484B	Brady Deep (Weber 'A')	Wexpro Company	53.0	11		\$
GR028	891012484A	Brady Deep (Nugget 'A')	Wexpro Company	53.0	6		\$
			Total for Pipeline:		19		\$
Trucked:	Big West Oil LLC Trucking						
GR005b	0491181550	Stud Horse	Ultra	54.1	11		\$
GR007	0491009020	Stud Horse Butte	Encana	54.6	85		
GR012	0491259430	Jonah, Fed. 1-5 & 1-6 & 1-7	Encana	55.3	42		\$
GR018a	0491277490	Stud Horse Butte	Encana	54.8	21		\$
GR025a	0491259440	Jonah, Fed. 1-8 & 2-8 & 1-33	Encana	54.7	23		\$
GR027	W 129787A	Bravo (Lewis 'A')	Tom Brown Inc.	70.3	5		\$
			Total for Pipeline:		187		\$
			Total for Southwest WY Sweet Crude:		1,051	22	\$

Notes:

- Actual gravity adjustments on all sour crudes/condensates.
- Legal locations can be obtained by calling technical representatives shown in the IFO.
- GR014 and GR019, Whitney Canyon/Carter Creek, are high in Mercaptans.

• For pipeline tariffs or trucking rates:

Rocky Mountain Pipeline - Gary Zollinger at 303-298-1000

Flying J - Zane Atkinson at 801-624-1198

Sinclair - Mark Petersen at 801-524-2852

Big West Oil LLC Trucking - Zane Atkinson at 801-624-1198

Wamsutter - Ray Pettibon at 832-636-7668

(Address)

Dear Title, Name:

The Minerals Management Service (MMS) has selected one or more onshore Federal leases in Wyoming that you operate to be included in a Royalty-in-Kind (RIK) program in which we will take crude oil and condensate royalties in-kind beginning April 1, 2005. This letter supercedes previous operator letters you have received regarding oil royalties taken in kind and is effective the first day of the month following its receipt by you.

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take crude oil royalties in-kind. Our authority is 30 U.S.C. § 192 and the royalty provisions contained in your Federal lease. For the purposes of this letter, royalty oil means the Federal lease oil and condensate production multiplied by the lease royalty rate. The volumes of royalty oil taken in-kind reflect all granted royalty relief.

Term

The Lessor will take all royalty oil in-kind from your properties listed in the enclosure beginning April 1, 2005, and continuing until we notify you that the in-kind status is terminated. We will provide Lessees and Operators with at least a 45-day prior written notice of termination of in-kind status.

Royalty Oil Delivery

The delivery points for royalty oil produced from the properties listed in the enclosure are at the accepted royalty measurement points. The Lessor or designee shall take custody and responsibility for royalty oil beyond the delivery point. For lower levels of production and/or those not directly connected to pipelines, delivery of royalty oil occurs when you choose to sell/move crude oil from the tank battery, an activity that may occur as infrequently as monthly, or even less often. Royalty oil produced during the term of the contract but remaining in tank batteries as inventory at the end of the project term will be cashed out at the MMS contract price at the last month the lease was taken in-kind or resolved by mutual agreement between the MMS and you when such royalty oil is actually sold/moved from the lease.

Royalty oil must be placed in marketable condition at no cost to the Lessor. Marketable condition means the condition generally acceptable to purchasers in the field or area. Questions on marketable condition should be directed to the Lessor's points of contact identified at the end of this letter.

You must deliver all royalty oil from the selected leases, including royalty oil from newly producing wells on these leases. During the in-kind period, you will make the best efforts to notify the Lessor's designated point of contact of new oil production flowing to the royalty measurement points identified in the enclosure. Royalty oil from such new properties will be added to the RIK volumes only upon mutual consent of the purchaser and the Lessor.

You must also use reasonable efforts, consistent with industry practice, to inform us as soon as practical regarding significant changes to the information listed in the enclosure; e.g., oil production levels, oil type, and/or royalty rates for the RIK contract properties.

Fulfillment of Royalty Obligations

Delivery of the accurate volume of royalty oil (taking into account the effects of normal operational imbalances) in accordance with the terms of this letter will satisfy in full the Lessee's royalty obligation to the Lessor.

For properties where the Lessee has applied for a royalty rate reduction, you may use the proposed royalty rate in the interim before the MMS and Bureau of Land Management (BLM) approve the reduction. If the MMS and the BLM do not approve the royalty rate reduction, the resulting imbalance will be resolved in the same manner as described below for imbalances not remedied within 90 days (see "Balancing Account and Imbalances" below).

All rent or minimum royalty obligations remain the responsibility of the Lessee. If the Lessee owes minimum royalties, the Lessor will issue a bill including information supporting the calculation. The Lessee will have 30 days to review the bill and make payment or appeal the bill.

Lessor Obligation to Take

We agree to take 100 percent of the royalty oil delivered at the delivery point for the account of the Lessor. Using reasonable and customary industry practices, we will try to minimize imbalances with you and the Lessees.

To facilitate timely and accurate custody transfer of Royalty Oil, we will communicate with you regarding arrangements for the transfer of Royalty Oil from the delivery point. The Lessee will not incur royalty-related penalties because of the Lessor's failure to take delivery of oil volumes as communicated by the Operator.

Volume Reconciliation

You must send all volume allocation schedules provided to pipeline companies that address crude oil volumes at the delivery points in the enclosure within 5 days of their submittal to the pipeline companies.

You, as the Operator, must provide the lease imbalance statement to MMS no later than 45 days after the end of the month of production, unless MMS approves an alternative timeframe for submission of the statement. We will monitor and reconcile royalty entitlements with the royalty oil deliveries you make. Reconciliation will involve communication between all parties. Upon project termination, you, as the Operator, must issue a final oil imbalance statement. You will settle in accordance with the section "Balancing Account and Imbalances." Volume allocation schedules and lease imbalance statements should be submitted to the rik.project@mms.gov mailbox.

Balancing Account and Imbalances

You and the MMS will jointly monitor imbalances between delivered and entitled volumes of royalty oil. You will take timely action to remedy such imbalances through adjustments to royalty oil volumes delivered to MMS.

Imbalances will be remedied in the production month following the month that the imbalance is identified. Imbalances not remedied within 90 days of the end of the production month will be resolved as follows:

- Mutually agreed upon make-up delivery schedule, or
- Cash out payment based on the contract price (at the delivery point) that MMS actually received (or would have received) from its Purchaser during the month or months the

imbalance occurred. Interest will accrue 60 days after notification that cash out payment is due.

When the lease is no longer taken in-kind or after cessation of production from a lease, imbalances will be cashed out based on the MMS contract price for the last month the lease is taken in-kind. Interest will accrue from 60 days after the final month of delivery. Imbalances remaining at the time of any sale/assignment of properties identified in the enclosure will be settled in compliance with your Purchase and Sale Agreement assignments. Imbalance provisions will be reviewed six months from initial contract date.

Reporting

You must continue to report crude oil production on the Oil and Gas Operations Report (OGOR) under requirements as specified in MMS regulations and the MMS *Minerals Revenue Reporter Handbook* at <http://www.mrm.mms.gov/ReportingServices/PDFDocs/RevenueHandbook.pdf>. You will not be required to report Royalty Oil for the RIK properties listed in the enclosure on the Form MMS-2014 for the term during which we take royalty in-kind. Reporting does not change for non-RIK leases.

Lessor's Designee

The Lessor may act by or through a duly authorized designee. In such event, we will provide prior written notification of a designee, including the person to contact. Notification will include specific duties that will be handled by the designee on our behalf. The Lessor also will provide written notification when the designee is no longer authorized to act on our behalf for the purposes of this letter. You are authorized to communicate with the designee as specified in the notification. You will not be required to direct communications to both the Lessor and our designee.

We will provide written notification when the designee changes or is no longer authorized to act on our behalf for the purposes of this letter. The designee will agree in writing to comply with all provisions of this letter that are applicable to the Lessor when the designee acts on our behalf.

Audit

The Lessor may audit your records regarding all information relevant to volumes and qualities of Royalty Oil produced, measured, delivered, and, if applicable, transported. We reserve the right to examine your financial records for the subject properties related to any transportation allowances and quality banks prior to the delivery point.

Lessees, Operators, and revenue payors must maintain all records of transactions mentioned in the above paragraph in accordance with the Federal Oil & Gas Royalty Simplification and Fairness Act of 1996 (Public Law 104-185 Section 115(f)).

Lessor Points of Contact

Copies of all correspondence between us should be kept on file. Some key contacts from our offices are listed below:

Operator Imbalance Statements:

Mr. Larry Barker

Telephone: 303-231-3157; Fax: 303-445-9572;

E-mail: Lawrence.Barker@mms.gov

or

Mr. Ted Drescher

Telephone: 303-231-3143; Fax: 303-231-3846;

E-mail: Theodore.Drescher@mms.gov

New Lease Production:

Ms. Sheila Perry

Telephone: 303-231-3610; Fax: 303-231-3846;

E-mail: Sheila.Perry@mms.gov

or

Mr. David Domagala

Telephone: 303-231-3540; Fax: 303-231-3846;

E-mail: David.Domagala@mms.gov

Electronic Funds Transfer:

Mr. Joe Romero

Telephone: 303-231-3123; Fax: 303-231-3501;

E-mail: Joseph.Romero@mms.gov

We acknowledge that you and the Lessees have given proper notice when using the telephone number or fax number provided to communicate with us. MMS will confirm any telephone communication regarding volumes by fax or e-mail no later than one business day after telephone communication occurs. We further agree to make arrangements to receive such communications regarding production scheduling issues during normal business hours. You and the Lessees should communicate with one of the points of contact to answer any further questions.

Sincerely,

Gregory W. Smith
Deputy Program Manager,
For Royalty-In-Kind

Enclosure

The Paperwork Reduction Act

The Paperwork Reduction Act: The Paperwork Reduction Act of 1995 requires us to inform you that this information is being collected by MMS to document fulfillment of royalty obligations on minerals removed from Federal lands and that we will use this information to maintain and audit lease accounts. This ICR is approved by Office of Management and Budget (OMB) and is titled "Royalty-in-Kind (RIK) Pilot Program—Directed Communications by Operators of Federal Oil and Gas Leases (OMB Control Number 1010-0129, expiration date July 31, 2006)." We estimate the burden for reporting is 1 hour per response. Comments on the accuracy of this estimate or suggestions for reducing this burden should be directed to the Information Collection Clearance Officer, Minerals Management Service, 1849 C Street, NW, MS 4230, Washington, DC 20240. Proprietary information submitted to the U.S. Department of the Interior is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(1), (4)), and the Departmental Regulations (43 CFR 2). An agency may not conduct or sponsor and a person is not required to respond to a collection of information unless it displays a currently valid OMB control number.